



An Efficient Alternative Source of Revenue for Nigerian Government: Lessons from Economic Diversification

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Abstract

The paper examined the source of revenue in Nigeria, the various sources and classification of government revenue in Nigeria, the constituents of federation account revenue heads, consolidated revenue fund heads, revenue sharing formula in Nigeria. The paper also critically reveals the causes/problems for the dwindling nature of government revenue; it considers the effect of fall in oil prices and the effect of the global financial meltdown on the revenue of Nigeria, which is the major problem that this paper is to proffer solution to as a matter that needs adequate attention. The main thrust of this paper is to explore other alternative sources of revenue for development by drawing lessons from other economies, to ensure sound national economic development and to generate growth and employment in Nigeria. This paper adopted the literary/doctrine research methodology, to review relevant issues. The paper suggests the way forward, by emphasizing that it is worthwhile that Nigeria's total dependence on oil would have a devastating effect in the future, if there is no political/economic will by the leadership of the country to diversify the economy from total dependence on oil to other non-oil generating sectors, the government should also as a matter of urgency ensure that efforts are made by concentrating on non-oil sector, like areas of agriculture, mining of solid minerals, taxation etc. These areas should be given the same desired attention as is given to oil.

Keywords: Revenue, Diversification, Economy, Government, Generation, Dependence

1. Introduction

In the public sector, the government has to live and perform its duties to the nation: as a result there must be a means of livelihood called money. The money required by government to perform its duties must be obtained from somewhere, and utilized on something. Thus the government financial problems fall under three areas, which are; where to get the money, how to keep the money, and how to utilize the money. These problems are more compounded because 'the state' in modern times has many functions to perform. Its activities are no longer confined to mere maintenance of peace, order and security, but to also maintain important economic, industrial and social schemes which are part and parcel of the activities of a modern state. Government revenue includes all amounts of money received from sources outside the government entity. Large governments usually have an agency or department responsible for collecting government revenue from companies and individuals. Government revenue also include Reserve Bank currency that is printed. This is recorded as an advance to the retail bank together with a corresponding currency in circulation for expense entry.



The income derive from the Official Cash rate payable by the retail banks for instruments such as 90 day bills. There is a question as to whether using generic business based accounting standards can give a fair and accurate picture of government accounts. With a monetary policy statement to the reserve bank directing a positive inflation rate, the expense provision for the return of currency to the reserve bank is largely symbolic in such a way that to totally cancel the currency in circulation, all currencies will have to be returned to the reserve bank for cancellation.

There has been several problems encountered by the Nigerian government with respect to revenue generation in Nigeria, some contemporary problems are discussed. Investigations with the Central Bank revealed that total federally-collected revenue in the first quarter, 2009 stood at ₦1,183.72 trillion, representing a decline of 10.8 and 31.9 per cent from the proportionate budget estimate and the preceding quarter's level. At N842.26 billion, oil receipts constituted 71.2 per cent of the total revenue representing an increase of 8.2 per cent over the budget estimate, but a decline of 39.5 per cent from the level in the preceding quarter.

The fall in oil receipts relative to the budget estimate was attributed to the decline in crude oil and gas production and sales as well as petroleum profit tax and royalties. Experience has shown that the institutional capacity to administer taxes effectively is woefully lacking in this country. Procedures, reinforced by third party audits, appear to ensure that taxes are paid and received albeit with potentially serious and costly internal lags. However, Nigeria lacks capacity to assess the reasonableness of the returns submitted by taxpayers, including costs and staffing, skills, pay scales, and other funding, and computer and Information Technology (IT) infrastructure. A recurring problem with PIT Nigeria is the non-compliance of employers to register their employees and to remit such taxes to relevant authorities. To address this, in 2002 the government amended the 1993 PIT Act to make non-compliant employers liable to penalties up to N25,000, as well as liable for the payment of all tax arrears. Employers that failed to keep proper records would also face a penalty of N5,000. A fine this small tends to encourage tax evasion since the penalty for being caught is lower than the cost for non-compliance. The issues of unremitted funds from the PAYE system and withholding taxes particularly among government ministries and agencies as well as lax adherence by all three levels of government to the approved list for (tax) collection, as stipulated by the 1998 Taxes and Levies Act 21, have over the past five years attracted the attention of Joint Tax Board (JTB). This same issue of compliance was not properly addressed in the draft national tax policy.

Tax in Nigeria especially (PIT) personal income tax always fails due to lack of equitability. Even the present draft sent to the National Assembly could not provide solution to this challenge. In spite of the fact that the self-employed outnumbered paid workers and that they earn as much as four times that of the formal sector employees, the bulk of PIT today is paid by employees whose salaries are deducted at source. There is the challenge of multiplicity of taxes which is a major problem with the draft document. Already Nigeria is known for



having problems with compliance. How would the Federal Ministry of Finance grapple this problem since it is not contained in the strategy document. It must be noted that a good tax policy set out the fundamental objectives of a country's tax system and prescribe some guidelines that would shape government policy actions.

The political economy of revenue allocation in Nigeria even with the current draft document does not prioritize tax efforts. It instead, anchored factors such as equality of states (40 per cent), population (30 per cent), landmass and terrain (10 per cent), social development needs (10 per cent), and internal revenue efforts (10 per cent). The approach, discourages a proactive revenue drive, particularly for internally generated revenue, make all government tiers heavily reliant on unstable oil revenues which are affected by the volatility of the international oil markets. Aside from the national syndrome of 'cake sharing', the instability and volatility of oil revenue should have created an opportunity for improved tax efforts within the provisions on taxation ratified in the 1999 Constitution. Although some state governments have initiated measures to enhance their tax generation attempts, the outcome has not shown any sign of serious effort. However, Objectives of the study is to determine ways of improving personal income tax administration and solutions to budget conflicts. To determine how services provided by revenue agencies can be increased, establish confidence in the way tax revenues are to be utilized, and to determine the usefulness of technology and related systems in tax administration.

2. Literature Review

The concept of economic diversification gained prominence with the modern theory of portfolio management developed by the Nobel Prize laureate, Professor Harry Markowitz which was based on common adage of "Not putting all eggs in one basket". Diversification can be regarded as a means of reducing a country's dependence on a particular product or a very restricted range of products generally exported without added value. Many developing countries with low economic growth relied heavily on a handful of commodities for trade, income and employment. Most of these countries benefit more from diversifying their economies by increasing their revenue generating source, in other to minimize shocks which is often experienced in the case of low demand for a particular commodity, or service. The relative economic stability of a country or region is frequently hinged on the extent of diversification in their source(s) of revenue as a counter-cyclical measure. A country or region that derives its economic sustenance from one product (mono product) is considered to be more susceptible to price volatility, while a country with variety of sources of income tend to be less prone to commodity price fluctuation. Diversification is an economic policy aimed at reducing dependence on export commodities that may be subject to price and volume fluctuations, or secular decline (Routledge Encyclopadia 2001). Since price and demand fluctuations are essential components of world's economic system, diversification is one of the options open to societies or firms to protect itself from the vagaries of economic cycle.



Literature on diversification dates back to the work of Maclaughlin in the 1930s when he sought to explain the economic cycles in American cities and the degree of concentration in economic activities. Rapid development of these works occurred in the 1940s and 50s and dominated growth paradigm towards the end of the 1970s works on diversification have demonstrated that, it plays an essential role in controlling economic price fluctuations of commodity exporting countries. For a country to attain substantial growth and development; the economy has to be diversified, that is, there should be simultaneous development of the various sectors of the economy rather than one sector. It should be noted that the spectacular drop in commodity prices during the interwar period in the USA, and Latin America promoted economic diversification which gradually inspired the commercial and industrial policies of the economies. Indeed, countries with diversified economic activity were less prone to crisis like during the periods of economic doldrums. According to Kuznets (1966) and Rostow (1960), structural transformation and diversification of economies are indispensable engine for growth and development. Early works on diversification placed emphasis on a series of elements which are considered to be essential in strengthening the productive fabric of developing countries. The first element was linked to investment capacity or accumulation by countries (Lewis, 1954). A large consensus has been established by literatures on the need to release significant resources for investment in order to diversify economic structure, and strengthen the transformation of traditional economies. A major factor determining diversification has been the extent of investment which contributes highly to the growth dynamics, and to productivity of new economic sectors. From this perspective, the historical experience of developing countries show that a rise in investment always translates into increased diversification of the production base of the economy. However, many developing countries are heavily dependent on commodity exports which eventually make these countries extremely susceptible to external shocks. Key challenge confronting policy makers in most of these countries are that of expanding export revenue, stabilizing export earnings, and upgrading value addition in a changing global environment. In virtually all regions of the world, the pattern of trade have changed from primary exports to manufactured exports of labor intensive types, and subsequently to more resource intensive manufactures. However, Africa is one of the rare regions where exports remain predominantly of primary nature.

In recent years, the link between diversification and growth has been examined by various analysts in many developed and emerging economies but the prevailing literature view is that, there is a positive relationship between trade openness and growth (Dollar, 1992, Sachs-Warner, 1995, Edwards 1998). Their study used a panel regression across fifteen countries and concluded that openness to trade is a significant explanatory variable for the level of growth rate of real GDP per capita in countries such as China and India. Other similar empirical studies have demonstrated the positive correlation between economic diversification and growth. Most development economists have also analyzed the advantages of dilution of macroeconomic risks. The structural models of economic development



emphasizes that countries should diversify from primary exports to manufactured exports in order to achieve sustainable growth, and development (Chenery, 1979, Syrquin, 1989). Berthelemy (2005) also underscored the contribution of diversification in the development process. Recent research by Booz & Company (2005), in search for economic development strategies and transformation agenda of some Middle Eastern countries with varying levels of economic maturity revealed a positive correlation between economic diversification and sustainable growth. The study further showed that diversification can reduce a nation's economic volatility and increase growth in the real sector. The findings are particularly important for countries that export raw materials and whose prices are subject to fluctuation, thus giving impetus for greater diversification.

Country Experiences from Economic Diversification

Economic Diversification is a long term process that requires altering the structures of the economy. A number of countries have engaged in economic diversification and it is of great interest to apply lessons from some Middle East and East Asia's diversification experiences to other developing economies. The lessons from these countries could be a starting point for Nigeria's quest for a diversified economy, and sustainable development.

Year/Description	Extractive Industry	Manufacturing Industry	Others*
1972	63.6	2.1	34.3
1980	62.7	3.7	33.6
1990	45.4	7.2	47.4
2000	33.9	13.5	52.6
2004	32.8	14.8	52.4
2010	32.5	10.6	44.1
2012	30.3	18.3	42.3

The United Arabs Emirates (UAE)

The UAE as a country comprises of seven sheikdom (Abu Dhabi, Dubai, Sharja & Kaiba, Ajman, Umm al Qaiwan, Ras al Khaimah and Fujairah) in the Gulf region of the Middle East with a rapidly growing economy. Diversification as part of UAE's success has been vigorously pursued due to the non-renewable nature of oil resources, in the last 30 years, the country witnessed dramatic changes in its economy spearheaded by huge revenue from crude oil sales, the UAE was able to diversify its economy more strongly than ever before. Specifically, the real non-oil GDP on the average grew by 9.3 per cent between 2002 and 2006. Crude oil production remained undoubtedly the most important driving factor of the economy. Its oil revenue has been used in financing the diversification and industrialization which resulted in a steady increase in the share of manufacturing activities, which forward and backward linkages with other sectors. In addition, the UAE diversified into financial services with the Dubai International Financial Centre (DIFC) becoming an important international financial hub. Diversification into financial services as in the Dubai International Financial Centre (DIFC) as well as exploring tourism/resorts potential of the



economy also contributed to growth and development of UAE. At the moment, the Emirate has greatly ventured into tourism. Both intra and inter regional tourism has become a promising avenue for more revenue for the country. Following the adequate revenue sourced from oil, the country has been further supported by modern physical infrastructure such as roads, airports, hotels, apartments and man-made attractions, among others. Significantly, tourism is driving the growth of UAE's construction industry with ripple effects on employment and improved standard of living.

East Asian Tigers (South Korea, Taiwan, Hong-Kong, Malaysia & Singapore) Experience

In all of these East Asian Countries, the various governments undertook the major responsibility of promoting economic growth. Although, they were culturally diverse, and differently resource endowed, they however exhibited similar characteristics in the pattern of their developments. Through extensive production diversification, their economies experienced enormous changes in industrial, and export structures over a short period of time. For most of these economies, and for the fact that they were poorly endowed in terms of natural resource meant that they must adopt export-oriented industrialization strategy. In order to encourage the transfer of technology, enormous investments were made in human capital, educating large number of skilled engineers that were able to absorb and adapt the most advanced technologies. In addition, the East Asian economies created atmosphere that was conducive for inflow of foreign investments. Specifically, the South Korean, Taiwanese and Malaysian economies metamorphosed from agrarian states to industrialized states in textiles production, and later to more sophisticated manufacturing of steel, ship building, etc. and eventually to services economies. On the other hand, Hong Kong and Singapore began with commercial entrepot business and later diversified into manufacturing which accelerated the desired growth. Commenting on the Asian Tigers experiences, Stiglitz (1996), stated that "indeed East Asian success was based on combination of factors, particularly the high saving rate interacting with high level of human capital accumulation, in a stable, market oriented – but one with active government intervention – that was conducive for transfer of technology". Thus, the combination of these strategies coupled with active government intervention accounted for the successes recorded in diversification in East Asian Tigers' South Korea, Taiwan, Hong Kong, Malaysia and Singapore.

Botswana Experience

Botswana as a country in the Southern part of Africa is richly endowed in mineral resources which include diamond, copper, nickel and soda. Its economy is heavily dependent on diamonds mining, which accounts for almost a third of her GDP, between 2003 and 2007, Botswana has consistently produced 30 to 34 million carats and it remains the world's largest producer of gem-quality diamond. Of all these products, diamond contributes tremendously to government's revenue, export earnings, and the GDP. The economy is driven by diamond production and exports to sustain socio-infrastructure spending and economic growth. Over the past two decades, the real per capita GDP had grown at an annual average rate of 7.0 per



cent. Earnings from diamond exportation have been used to develop physical and social infrastructure such as roads, water supply, power, telecommunications, health facilities, schools, and human capital. Botswana's development strategy has been guided by a rolling 6-year National Development Plans (NDPs) which commenced in 1997. However, the country has begun to reduce its dependence on the single commodity (diamond) through radical economic transformation, thus the non-mineral diversification efforts have shown significant progress. Following the noticeable setbacks in the manufacturing sub-sector, efforts have been focused on the Country's tourism potential and services sector, and particularly, the financial services, so as to expand the revenue base of the economy.

Over the past few decades, Botswana has been considered one of the best performing economies in the world, and was hailed as a beacon of success in economic management compared to most African states. It has been among the world's fastest growing economies for the last 30 years. Driven in large part by diamond revenue expenditures, Botswana's economy has moved from being one of the poorest at independence (1966) to middle-income status by the mid-1990s. during this period, the economy grew at an average positive growth rate of more than 8 percent per annum, and per capital income of more than \$6,000 (current market prices) as at the end of 2009 (Bank of Botswana 2009). To a large extent, Botswana has been able to avoid the so-called "Dutch disease" or "resource curse" suffered by so many other mineral-rich economies, owing largely to its expenditure strategy. It has used its natural resource wealth to diversify and grow their economy, this is one of the reasons why it established Diamond Trading Co in 2008 as part of her development drive. Botswana also produces coal, soda ash, copper-nickel matte and gold but some factors have however hindered the growth of the manufacturing sector in the country. These include limited availability of domestic financing capital, absence of a critical mass of citizen entrepreneurs with business acumen, limited input base. Inadequate skilled personnel, infrastructure and supporting services and a small domestic market. Botswana has a small population estimated at about 1.8 million as at 2008.

Tourism is one of the key sectors that have been identified as conduit for economic diversification. Estimates show a 32 percent increase in total arrivals between 1998 and 1999, and 22 percent between 1999 and 2000 (Republic of Botswana 2003). The data also shows a 49.0 per cent increase in revenue between 1998 and 2000. The sector contributes about 10 per cent to GDP, with generally positive trends over the past decade. However, there are still challenges as regard diversification of the product base, as well as increasing citizen participation in the sub-sector. In terms of exports, the export mix remain highly concentrated and dominated by diamond exports. Despite these numerous initiatives, the economy remains substantially dependent on revenues generated by diamonds. The economy had a well-established and planned system with the revenue generated that was assumed to be essentially used for the welfare of the poor, i.e. the government is assumed to be using the revenue prudently to improve the welfare of the poor. The government was expected to



increase the share for the benefits of the people, particularly the poor by providing universal and vocation-oriented education, primary health and basic infrastructure. As the economy grows and diversification takes place, government and possibly NGOs are expected to be able to provide other pro-poor welfare social schemes and safety nets. i.e. special government programmes targeted at the poor who are unable to enter the labor market. However, Botswana government was able to significantly and positively contribute to the social security unemployment benefits, pension schemes and similar schemes for its people.

Chile Experience

Chile has already realized that relying so much on a single export product as copper is a dangerous strategy yet she remains the world's top copper producer and has greatly benefited from its huge demand by China, her major trading partner. In 2012, for instance, Chile's largest contributory sector to the GDP was mining (mainly copper), other subsectors included business services, personal services, manufacturing and wholesale/retail trade. Mining contributes 59.5 percent of exports, while manufacturing accounted for 34.0 percent of exports which is mainly in food production, chemical pulps, paper and others. Although Chile exports wine, salmon, fruit and wood pulp in large quantities, copper accounts for three-fifths of Chilean exports, and one-fifth of the country's gross domestic product (GDP). Chile is the second largest producers of salmon in the world. As at 2012, the country's share of worldwide salmon industry sales was 38.2 percent. The presence of large foreign firms in the salmon industry has brought a burgeoning salmon production technology. Technology transfer has allowed Chile to build its global competitiveness and innovation, and has led to the expansion of production as well as increase in average firm size in the industry.

The country remains largely reliant on copper, and therefore precariously vulnerable to changing commodity prices. As a result, its present outlook has encouraged Chile as well as other export dependent Latin American countries to diversify their mining based economies. Even though Chile is heavily reliant on copper exports, the country is in a good stead to diversify. There is one important reason why Chile is an interesting case study for examining the hypothesis that export diversification can contribute to economic growth in developing countries: Chile has diversified its export horizontally and vertically on the basis of natural resources. Since the comparative advantage of many developing countries lies in the production of resource based products, the experience may demonstrate to other developing countries on if, and how diversification of primary based natural resources can accelerate their growth. Although Chile exports wine, salmon, fruit and wood pulp in large quantities, copper accounts for three-fifths of Chilean exports, and one-fifth of the country's gross domestic product (GDP). Chile is the second largest producers of salmon in the world. As at 2012, the country's share of worldwide salmon industry sales was 38.2 percent. The presence of large foreign firms in the salmon industry has brought a burgeoning salmon production technology. Technology transfer has allowed Chile to build its global competitiveness and innovation, and has led to the expansion of production as well as increase in average firm



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Diversifying, and increasing industrial exports with higher technological contents possibly generates stronger growth effects. It is noteworthy therefore to state that export diversification on the basis of natural resources can play an important role in the growth process of developing countries, which are dependent on agricultural, and mining exports. Since most of Chilean export sectors rely on natural resources, lessons for other developing countries can be drawn from the Chilean experience with regard to resource-based diversification strategies. For Chile itself, there exists the danger that the resource-based export diversification may gradually wears out, as such efforts are being made to establish non-resource-based sectors with higher technological opportunities in order to sustain the process of export diversification and economic growth. As another form of diversification, Chile registered a sustainable growth in tourism business over the years. It thus received about 2.25 million foreign visitors in 2006 which subsequently increased to 2.50 million in 2007. Tourism has received a boost in the economy as it contributes substantially to government revenue. In addition, Chile's approach to foreign direct investment (FDI) is codified in the country's foreign direct investment law, which gives foreign investors the same treatment as Chileans. The main taxes in Chile in terms of revenue collection are value added tax (45.8%) of total revenue in 2012, income tax (41.8%) and corporate income tax of 20.0 percent over profit from companies. There are also special sales taxes on alcohol and luxury goods, as well as specific taxes on tobacco and fuel. Other taxes include the inheritance tax, property tax and custom duties.

Brazil Experience

The major sources of Brazilian Government's revenue are COFINS Welfare tax is similar to VAT. In Brazil, it is a federal contribution tax based on gross revenue of business sales. The current COFINS rate in Brazil is about 9.25%. CSLL tax on Corporate Profits is a tax paid by companies outside the company income tax, as social contribution base on their net profits. It is actually a social security contribution and is used by government to finance social security. The rate varies between 10% and 12% and the calculation basis is the value of net income before provision for income tax. IPI Industrial Products Tax (IPT) which is



similar to Value Added Tax (VAT) is charged on industrial products as they are imported or dispatched from domestic plants and it varies according to the nature of the goods. The average rate is 10%. Export goods are exempted from IPI. Oil Sector Concession Fees are made up of signature bonuses (paid at the time of winning a concession bid), royalties (which are paid monthly by concessionaires operating in the oil fields both onshore and offshore), special participation fee as well as payment for the occupation and retention of the area. The rates were determined by the appropriate government agency from time to time.

Back-tax Collection Programme, REFIS (Tax Recovery Programme), consists of an optional system of tax installment offered to companies with debts to the Federal Revenue. A means to ensuring that unpaid tax revenues are recovered, while revenue from Grants and other sources include: grants from foreign governments, international government units. It also includes fines, administrative fees and entrepreneurial income from government ownership of property, interest, dividends, rent, and income from property sales, royalties and tourism etc. Tourism: is a Growing sector and key to the economy. the country had 5.1 million visitors in 2010, ranking as the second main destination in South America. Revenue from international tourists reached US\$6.78 billion in 2011. Agriculture: is a major sector of the Brazilian economy and key to economic growth, and foreign exchange. Agriculture accounts for about 6% of GDP (25% when agribusiness is added) and 36% of Brazilian exports. Brazil enjoyed a positive agricultural trade balance of \$55 billion in 2019. Brazil is the world's largest producer of sugarcane, coffee, tropical fruits, frozen concentrated orange juice (FCOJ), and has the world's largest commercial cattle herd (50% larger than that of the U.S.). Brazil is also an important producer of soybeans, corn, cotton, cocoa, tobacco, and forest products. The remainder of agricultural output is in the livestock sector which mainly is the production of beef and poultry, pork, milk, and seafood.

Industrial Development: Brazil has one of the most advanced industrial sectors in Latin America, Brazil's diverse industries include automobiles and parts, machinery and equipment, textiles, shoes, cement, computers, aircraft, and consumer durables. Brazil continues to be a major world supplier of commodities and natural resources with significant operations in lumber, Iron-ore, tin, petrochemicals. Brazil has a diverse and sophisticated service industry as well, including developed telecommunications, banking, energy, commerce, and computing sectors. Oil Export: The government of Brazil undertook an ambitious program to reduce dependence on imported oil. In the mid-1980s, imports accounted for more than 70% of Brazil's oil and derivatives need; the net figure is now zero. The refineries are producing at full capacity to meet domestic demand and export.



Sources and Classification of Government Revenue

The federal government derives its revenue from different sources, paid into the consolidated revenue fund. Prior to 1989 budget, the federal government derives its revenue through the following heads:

Head 1 Direct Taxes;	Head 7 Rent of government property;
Head 2 Indirect Taxes;	Head 8 Interest and Repayment (General);
Head 3 Mining;	Head 9 Interest and Repayment (States);
Head 4 Licenses and Internal Revenue;	Head 10 Reimbursements;
Head 5 Fees;	Head 11 Armed Forces;
Head 6 Earnings;	Head 12 Miscellaneous.

This was with effect from 1989 budget, the federal government revenue was classified into two groups; viz Federation Accounts Revenue Head; and Federal Government Accounts Revenue Heads.

Federation Accounts Revenue Heads: - Federation account was established by the constitution of the Federal Republic of Nigeria, 1999, the finance (control & management) Act of 1958, and the audit ordinance of 1956. It was also strengthened by the civil service and local government reforms decree 43 of 1988. Federation account is a special account in which were paid into all revenue collected by the government of the federation, except the proceeds from the PAYE of the Armed forces personnel, Foreign Service officers and residents of the federal capital territory, Abuja and other federally independent revenue. Federation account is a distributable pool account being rationed among the federal, state and local governments in so much terms and in manners prescribed by the law. Federation accounts has the following revenue heads:

Head 1 – Direct Taxes; These are taxes on individual and companies e.g. companies income tax, petroleum profit tax, capital gains tax, bark duty assessment, personal income tax, surcharge on pioneer companies, withholding tax, capital transfer tax etc. *Head 2 – Indirect Taxes:* These are taxes raised from goods and commodities in the form of customs and excise duties, e.g. import duties, export duties, excise duties, tariffs, forfeiture penalty, VAT etc. *Head 3 – Mining* these are oil pipeline license fees, rent of mining rights, mining fees and royalty on minerals, NNPC earning from direct sales, sales of crude oil for domestic consumption, sales of crude oil for export, penalty for gas flared, rent of oil well, rent of oil ground, royalty for extraction of oil etc.

Federal Government Accounts or Consolidated Revenue Fund Accounts (CRF): - This is a fund account established by the constitution of the federation. The consolidated revenue fund is the amount standing to the credit of the federal government and is represented by cash assets. The consolidated revenue fund was established by the constitution of the Federal Republic of Nigeria, 1999. The finance (control and management) Act of 1958 and the audit ordinance of 1956, states that, there shall be established consolidated revenue fund, into



which shall be paid all income derived by government from all sources. Except those that were specially designed for other funds. The various sources of income credited to the CRF as well as charges thereto are shown on the diagram below: Consolidated Revenue Fund Account (Revenue SIDF)

Head 6 – share from federation account;	Head 12 – rent of government property;
Head 7 – direct taxes;	Head 13 – interest and repayment-general;
Head 8 – licenses & internal revenue;	Head 14 – interest and repayment-state;
Head 9 – mining;	Head 15 – armed forces;
Head 10 – fees;	Head 16 – reimbursement;
Head 11 – earnings and sales;	Head 17 – interest and repayment-general.

Analysis of the various sources of income is given below:

Head 6 – Direct allocation from federation account which the 55%, 50% or 48.5% of the federal government share from the federation accounts are applicable to, at different periods. *Head 7* – Direct Taxes: These include PAYE of the armed forces personnel, police personnel, Foreign Service officers and residents of the federal capital territory Abuja. It also includes sales tax in Abuja, VAT in Abuja etc. *Head 8* – License & Internal Revenue: These are realized from issue of licenses e.g. arms and ammunition license fee, goldsmith license fees, naturalization & citizenship fees, companies registration fee etc. *Head 9* – Mining: these include mining fees, rent of crown lands, royalties on gold, tin, iron ore, bitumen, coal etc. *Head 10* – Fees: these are fees received from services rendered by government officials e.g. court fees, court fines, medical fees, probate fee etc. *Head 11* – Earning and Sales: these are derived from the sales and use of government properties e.g. sales of stores by work, sales of publication, sales of stamps, commission on money order, poundage of postal orders, telegram fees, telephone fees, dividend from government investments, use of government vehicles, sales of government lands, houses, and sales of boarded vehicles etc.

Head 12 – Rent of Government Properties: these include rent of government quarters, rent on government land, rent of building, fees for temporary occupation, rent of acrodrome etc. *Head 13* – Interest and Repayment (General): these are interest and repayment of loans granted to individuals by government, corporations and government companies e.g. repayment of motor vehicles' loans etc. *Head 14* – Interest and Repayment (State): these are interest and repayment of loans granted to state government. *Head 15* – Armed Forces: these are revenue derived from sales of armed forces property e.g. sales of store; rent of armed forces vehicles, armed forces educational receipt, armed forces training programme, sales of small weapons etc. *Head 16* – Reimbursement: these are refund for services rendered to states and local government, public corporations and other statutory bodies by federal government officers e.g. reimbursements of audit fees, police secondment, reimbursement of overpayment made to government workers etc. *Head 17* – Miscellaneous: these are other sources of revenue besides these mentioned above e.g. overpayment refunded, deposit lapse,



sundries, conscience money that is, money recovered from armed robbers and drug pushers etc. All the above heads are paid into the consolidated revenue fund (Adams, 2006).

The above critically constitutes the various revenue sources of the federal government of Nigeria which are thereafter shared among the three tiers of government i.e. federal, state, and local government. The sharing formula has been a critical factor in the Nigerian policy for a long period of time. Some of the revenue formulas over the years will be considered in this section.

Revenue Sharing Formula in Nigeria: It's Inconsistencies over the Years

The practice of modern democracy began as a struggle over public revenue in England. Merchants demanded a say in how tax money would be spent. The battle cry for democracy in that conflict between merchants and the monarchy was 'no taxation without representation'. This marked the beginning of concern by ordinary citizens that the peoples' representatives manage public revenue. Virtually every constitution in the world has subscribed to this fundamental principle of democracy. Our 1999 Constitution has entrenched this principle by granting the National Assembly and the State Assemblies the exclusive power to appropriate funds and oversee their expenditure. The concept of fiscal federalism was first introduced in Nigeria in 1946 following the adoption of the Richards Constitution. The period 1947 – 1952 marked the beginning of the recognition of sub-national governments during which financial responsibilities were devolved to the three regions – North, West and East.

Brief Historical Outline of Revenue Allocation Formulas in Nigeria

Revenue Allocation Formula Since 1992 – 2008: This table by the Economic Confidential Magazine details the Revenue Allocation Formulas that were proposed since 1992 to date and those that have been implemented for disbursement of funds within the period. The abbreviations in the table are: NRMAFC; National Revenue Mobilization Allocation and Fiscal Commission; RMAFC; Revenue Mobilization Allocation and Fiscal Commission; FMF: Federal Ministry of Finance; S.FUND: Special Fund; BESA: Basic Education & Skill Acquisition; AS MDF & TR: Agriculture and Solid Mineral Development Fund & Tech Research; DNR: Development of Natural Resources.

Table 1: Revenue Allocation in Nigeria

Years	Revenue Formula	FG	STATE	LG	Sub-total	FCT	Ecology	Nat. R e.f
1992 – April 2003	NRMA FC Report & Used Apr. 2002 Court nullified	48.5%	24.0%	20%	92.5%	1.0%	20.0%	1.5%
August 2001	RMAFC Proposal Submitted in Aug. 2001	41.3%	31.0%	16.0%	88.3%	1.2%	1.0%	1.0%



Years	Revenue Formula	FG	STATE	LG	Sub-total	FCT	Ecology	Nat. R e.f
May 2002	1 st Exec Order Presidency May 2002	56%	24%	20%	100%	-	-	-
July 2002	2 nd Exec Order Presidency July 2002	54.68%	24.72%	20.60%	100%	-	-	-
Dec. 2002	RMAFC Revised Formula Submitted in Dec. 2002 but Withdrawn	46.63%	33.0%	20.37%	100%	-	-	-
March 2004 – 2008	FMF Modified Grant in use since March 2004 to date	52.68%	26.72%	20.60%	-	-	-	-
Sept. 2004 to 2008	RMAFC Revised Proposal Submitted to President in Sept. 2004 and still pending in 2008	53.69%	31.10%	15.21%	-	-	-	-

Source: *The Economic Confidential* (Nigeria's Economic Magazine)

From the table above, it is very clear that from inception, Nigeria has been experiencing fluctuations in the revenue allocation formula and by extension what the federal, state and local governments have been receiving by way of revenue from the centre.

A typical revenue allocation will be considered. For the purpose of this paper, allocation for 2008 fiscal year will be looked into.

Table 2: Summary of Revenue Distributed from Federation Account in 2008

Beneficiaries	Statutory Allocation N' billions	Domestic Crude Augmentation N' billion	Value Added Tax N' billions	Total N' billions
Federal Government	1,705.148	453.160	54.368	2,212.677
States & FCT	1,395.802	398.618	1298.057	1,992.477
Local Govts.	722.258	192.476	135.921	1,050.656
Derivation & Ecology	33.940	9.343	-----	43.284
Stabilization	16.970	4.672	-----	21.642
Development of Natural Resources	57.019	15.697	-----	72.717
Cost of Collection (Customs)	19.688	-----	-----	19.688
Cost of Collection (FIRS)	16.673	-----	16.181	32.854
Customs/FIRS Refund/Fee	7.887	-----	-----	7.887
FIRS Stamps Duty Refunds	29.684	-----	-----	29.684
Grand Total	3,967.537	1,073.967	404.528	5,446.032



Revenue Allocation Problem/Solution in Nigeria

Mobolaji (2002) in his study *Revenue Allocation and the Nigeria State* gave a concise analysis of the revenue allocation problem and possible political solution to the problem. Below are excerpts of his historical affirmation of the issues.

Problem Number One of the Supreme Court Ruling – Illegal First Charge: “Ever since the Supreme Court Ruling on Offshore/Onshore Dichotomy (Resource Control) of April 5, 2002, the Federal Government and the oil-producing littoral states have been singing the blues, scampering for what to do. The 2002 Budget has been thrown into disarray; president Obasanjo has had to withdraw from National Assembly consideration the new Revenue Allocation Formula that had been prepared for him by the Revenue Allocation Committee – and Akwa-Ibomites (in particular its State Governor Obong Attah) have been shouting “Blue Murder!” over “zero allocation” in the month of April 2002! More dramatically, the Senate has presented a resolution asking the Supreme Court to please “stay execution” – in short, the Supreme Court ruling amounted to a “death sentence” for some people!

In previous years – say 1998 – under the military, a N1 trillion budget (roughly the budget for 2002), of which typically about N700 billion was derived from oil – would first have had about N530 billion siphoned off into “First Charges” under federal government control. The remaining N470 billion (put in the Federation account) would have had 7.5% of it – or N35 billion – siphoned off into “special funds” charges. The remaining N435 billion would then have been composed of a split of the N470 million in the proportion 48.5:24:20 between Federal, State and Local Government as N228 billion, N113 billion and N94 billion respectively. This is what has been giving the Federal government nightmares – both the Executive and the National Assembly (which has a stake in having its hands on federal money).

Problem Number Two: Onshore/Offshore Dichotomy: The story is not complete, however, for the oil-producing states because of the non-shore/off-shore dichotomy Supreme Court ruling against them! At present, Akwa-Ibom has virtually 100% of its oil OFFSHORE; Ondo about 85% offshore, and Delta, Rivers and Bayelsa about 25%. What this means is that 22% + 0.85 of 7% + 0.15 of (30% + 18% + 18%) or about 41% of the total oil derivation money of N90 billion (that is N35 billion) should ideally be returned to the Federation account (not just to Federal government coffers), to be re-distributed in the putative 52:26:22 ratio.

Consequently, the most post-Supreme Court dichotomy ratio would really be $(473 + .52*37 : 237 + 53 + .26*37 : 200 + .22*37)$ 49.2 or the ratios 49.1:30.0:20.8 Federal, state and local governments percentage split respectively. In absolute naira figures, how do the oil-producing states fare? In a trillion-naira budget, instead of getting from derivation ALONE: 30% of N700 billion (N210 billion), Delta would get N178.5 billion; a N22.5 billion shortfall; 22% of N700 billion (154 billion), Akwa-Ibom would get zero allocation; a \$154 billion shortfall; 18% of N700 billion (N126 billion), Bayelsa and Rivers would each get N107 billion; a N19 billion shortfall; 7% of N700 billion (N49 billion), Ondo would get N7.4



billion; a N41.6 billion shortfall; Cross-River, Abia and Imo, with onshore (or creek) oil, would lose no derivation money; States with on-shore gas deposits would add those appropriate proportions of the gas revenues to their income. 48% of this shortfall is however returned to all of the states and local governments – i.e. on average each of these states would recover only N0.5 billion from derivation alone!

Problem Number Three: Pay-Back Time!: Finally, there is a double whammy – and unintended consequence – against some of the states, particularly Akwa-Ibom and Ondo States: the states do not only have a shortfall, but they are now being asked to refund the money allocated to them since the inception of this administration as they got the allocations illegally! In fact, it was reported that Akwa Ibom would be made to begin to refund N33.4b immediately (hence its zero allocation in the month of April!) while Ondo would refund N8 billion to the Federal Government. Looking at Table 1, for Akwa Ibom, if we take away the \$4.46 billion derivation money received in January – March of 2002, that means that it has to refund N28.94 billion derivation money out of the N50.7 billion that it has received since January 2000 – that is 57% of its money received between January 2000 and December 2001 gets taken away. For Ondo State, we take away N2,429 from N8 billion to get N5.571 billion out of N27.4 billion – or 20% of the money it received since January 2000 and December 2001 taken away.

Problem Number Four: Debt and the various Tiers of Government: There are another troublesome ruling of the Supreme Court, which was a fall-out from declaring illegal debt as part of first charge – that each tier of government should be responsible for its own debt. How much is this debt? Do not know what it is for 2002, but do know it for 1988 (when there were just 21 states), as shown in Table 3, indicating that the states' contribution to the external debt was about 15.3%, with the North (8.6%) and the South (6.7%) as their own share. The 2002 figures may not be accurate for each state, but it is likely to be within spilling distance of the correct ones within each geopolitical region. The figures show that the Naira external debt burden for the states in 2002 could be quite high - \$4.36 billion (roughly N493 billion) out of Nigeria's total \$28.5 billion. Now the Supreme Court says that the states will have to bear their own burdens, some inherited from predecessor states, others incurred by the new states themselves.

3. Search for a Political Solution

From all the above considerations, little wonder then that the Federal government is scrambling, Akwa Ibom is shouting “Blue Murder” and the Senate is asking the Supreme Court for “stay off execution!”

What has the Federal government been doing in the interim? A few illegalities one might add, including: Suggesting that the FCT (which was judged not to be a state by the Supreme Court, and hence illegally being funded as such) should be considered a state for the purposes of revenue allocation. Consequently, it has gone ahead to surcharge the three tiers of government in the ratios 52:26:22 to pay for that 1% FCT allocation. This amounts to the



Federal government committing lower tiers of government to monies that have not been appropriated by their state assemblies – another unconstitutional move! It has made a similar move with its oil Joint Venture (cash) Calls for – surcharging the states accordingly!; It has held back altogether derivation allocations, while the Revenue Allocation committee works out its new formula. One would have expected the federal government to at least pay out the 13% minimum stipulated by the Constitution.

In an election year, and in Nigeria’s political climate, it is most unlikely that the Supreme Court ruling will be final. But now that legal voice were heard from the Supreme Court, what political solutions might we arrive at? Five suggestions were made here: Change the Federation Account ratios to 52.1:25.9:22.0 Federal, State and Local Governments and thereby get the Federal Government to pay for Abuja FCT from its own share (52.1%) of the account rather than commit the states and local government to support the FCT and/or regard the FCT as a state – which it is not. Should all “forgive? Akwa Ibom and Ondo (and any other states) of their past over-allocations – no payback, no zero allocation please, we are all brothers and sisters! Let bygones be bygones! For the Joint Venture Calls, the Federal Government should immediately continue with its recently announced move of making NNPC stand on its own as a commercial enterprise with no cash support from the Federal government, with NNPC paying a percentage of profits into the Federation account. (Strict accounting please, no Enron-like innovative accounting) In the time being, it should take the False suggestions of seriously reducing our exposures in these Joint Ventures (and raising some money thereby) in favour of Production Sharing Contracts (PSCs). For onshore oil (natural resources), 13% derivation should be stipulated once and for all to be given to the oil-producing states. The positions above are entitled to the writer of the paper as a Nigerian.

4. Findings

Dwindling Government Revenue: Contemporary Issues, Result of Militant Activities

The various sources of government revenue discussed earlier, have been taking a dwindling posture in recent time. The vanguard newspaper reported the Acting Director of petroleum resources, Mr. Billy Agha as saying that, the Federal Government has lost about 1,101, 488 barrels of oil per day (bopd) during the first quarter of 2009 alone mainly due to the crises in the oil rich Niger-Delta region. Specifically, 474,705 bopd was deferred in January while the month of February witnessed a larger deferment of about 625,783 bopd. He further affirmed that the large deterrent figure resulted from militant activities as well as operational problems in the industry.

‘The crises and militancy attack have also taken their toll on the country’s gas reserve largely due to the shut-in of several oil-producing wells in the country. The Federal Government has lost about 178.9 billion cubic feet (cf) of gas production to the ugly trend in the first quarter of 2009 alone. The country recorded about 456.58 billion cubic feet during the period as against the 634.67 billion cf of gas produced in the first quarter of 2008 leaving a shortfall of 178.9 billion cf in that period due to the crises in the Niger-Delta.’



With Nigeria now losing an average of \$1 billion in oil revenue every month as a result of production shut-ins rather than a fall in crude oil prices, the Central Bank of Nigeria (CBN) may no longer be able to defend the current value of the naira, it has emerged. The reserves, which peaked at about \$62 billion in 2008, could fall to below \$40 billion soon if the CBN continues to draw from it to protect the naira by meeting foreign exchange demand at its weekly auctions. The reserves dipped to \$50.11 billion in January 2009 and now stand at \$43.46 billion with bleak prospects for recovery as the nation grapples with falling production as a result of militant activities. Nigeria is unable to benefit from the slight recovery in crude prices, which appear to be stabilizing at \$60 per barrel - \$15 above Nigeria's budget benchmark. (Nzechi et al, 2009)

Fall in the Price of Crude Oil

Worried by the uncertainties and fluctuation in the price of crude oil which is Nigeria's major income earner, the three tiers of government may have agreed to no longer base their budgetary plans on petroleum products proceeds. Already, plans are on by the three tiers to collaborate in repositioning the nation's tax system, as part of measures to counter the threat posed by the instability in the international crude oil market. Crude oil prices, which peaked at \$147 per barrel on July 11, 2008, dropped below the Federal Government's oil benchmark of \$45 per barrel for 2009 Appropriation in the fourth quarter of 2009. The oil prices currently hover around \$50 per barrel. (Babalola, 2009). From the forgoing, another reason for revenue decline in Nigeria is a fall in the price of crude oil in the market.

Global Financial Crisis

With the global financial meltdown, and subsequent drop in crude oil price has made the economy operators to believe that the crisis could shortly affect the government's spending and projects execution. The issue portends grave consequence since the country largely depends on oil for sustenance. Also, the Federal Government relies on oil benchmark to fix its budgets. However, the challenges can be overcome through prudent fiscal policies, (Akinola, 2008).

Since the global financial crisis hit credit institutions in the United States (US) and Europe, there have been speculations that the problem would affect the finances or better still, governments across the world. The reason is that national economies depend on one another for survival, and as such, no economy can be insulated from what is going on from the rest of the world. Of great concern is Nigeria, who the eight largest producer of crude oil and a strong member of the Organisation of Petroleum Producing Countries (OPEC). The drop in the price of crude oil would affect the federal and state governments' spending if the crisis continues. Several reasons account for this development. For instance, the Federal Government uses price of crude oil to benchmark its budgets.



5. Conclusion

So far this paper has been able to look into the various sources and classification of government revenue in Nigeria, the constituents of federation account revenue heads, consolidated revenue fund heads, revenue sharing formula in Nigeria, the genealogy of revenue formulae in Nigeria and its inconsistencies over the years, the paper also looked at a summary of revenue allocation for 2008, while the problems of revenue generation and allocation and possible solutions were also considered. This study went further to critically review the causes for the dwindling nature of government revenue in recent time; it considered the effect of militant activities in the Niger Delta area of Nigeria, fall in oil price and the effect of the global financial meltdown on the revenue of Nigeria.

It is worthwhile to emphasize that Nigeria's total dependence on oil would have a devastating effect in future if there is no political/economic will by the leadership of the country to diversify the economy from total dependence on oil to other non-oil generating sectors. The government should also as a matter of urgency ensure that efforts are made at concentrating at non-oil sector in the areas of agriculture, mining of solid minerals etc. is given the desired attention as we have it in oil. Government should lead by example by ensuring the above. This study therefore wishes to emphasize that, other presentations be made which the current paper did not cover, so that collectively Nigeria would be a better place for all.

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